

Mongolia Growth Group Ltd.

Consolidated Financial Statements

December 31, 2020

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Mongolia Growth Group Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Mongolia Growth Group Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

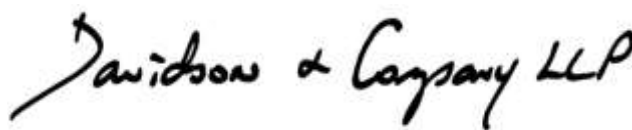
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 5, 2021

Mongolia Growth Group Ltd.
Consolidated Statements of Financial Position
As at December 31

(Expressed in Canadian dollars)

	2020	2019
	\$	\$
Assets		
Current assets		
Cash (note 5)	1,361,771	737,255
Marketable securities owned (note 6)	10,613,444	3,689,304
Other assets (note 7)	159,729	1,383,027
	<u>12,134,944</u>	<u>5,809,586</u>
Non-current assets		
Investment properties (note 8)	14,542,236	18,831,985
Property and equipment (note 9)	1,293,241	1,435,650
	<u>15,835,477</u>	<u>20,267,635</u>
Total assets	<u>27,970,421</u>	<u>26,077,221</u>
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	564,542	767,732
Marketable securities sold short (note 6)	39,223	23,340
Income taxes payable	1,393	34,434
	<u>605,158</u>	<u>825,506</u>
Non-current liabilities		
Long Term CEBA Loan (note 11)	40,000	-
Deferred income tax liability (note 12)	478,836	581,887
	<u>518,836</u>	<u>581,887</u>
Total liabilities	<u>1,123,994</u>	<u>1,407,393</u>
Equity		
Share capital (note 13)	53,165,247	53,504,935
Contributed surplus	6,849,976	6,849,976
Accumulated other comprehensive loss	(15,444,642)	(14,233,385)
Deficit	(17,724,154)	(21,451,698)
	<u>26,846,427</u>	<u>24,669,828</u>
Total equity	<u>26,846,427</u>	<u>24,669,828</u>
Total equity and liabilities	<u>27,970,421</u>	<u>26,077,221</u>

Commitment and contingencies (note 17)

Subsequent events (note 23)

Approved by the Board of Directors

"Harris Kupperman"

Director

"James Dwyer"

Director

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Consolidated Statements of Operations

For the years ended December 31

(Expressed in Canadian dollars)

	2020 \$	2019 \$
Revenue		
Rental income	756,283	1,287,353
Other revenue	68,170	156,436
Gain (loss) on disposal of investment property (note 8)	106,762	(302,959)
Total revenue	931,215	1,140,830
Expenses		
Salaries and wages	599,199	693,852
Other expenses (note 20)	1,440,400	1,585,145
Depreciation (note 9)	68,795	73,294
Total operating expenses	(2,108,394)	(2,352,291)
Interest income	2,512	5,617
Unrealized loss on fair value adjustment on Investment properties (note 8)	(2,700,069)	(1,347,662)
Impairment of property and equipment (note 9)	(36,426)	(158,655)
Unrealized gain on short term investments (note 6)	4,265,403	454,824
Realized gain (loss) on short term investments (note 6)	3,288,803	(358,826)
Foreign currency gain (loss)	(17,218)	208,195
Finance costs	(21)	(82,822)
Reclassification of accumulated other comprehensive income on disposal of subsidiary (note 21)	-	(824,864)
Total other income (loss)	4,802,984	(2,104,193)
Net income (loss) before income taxes	3,625,805	(3,315,654)
Income taxes (note 12)	101,739	65,208
Net income (loss) for the year	3,727,544	(3,250,446)
Net income (loss) per share (note 13)		
Basic		
From net income (loss) for the year	0.12	(0.10)
Diluted		
From net income (loss) for the year	0.12	(0.10)

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31

(Expressed in Canadian dollars)

	2020	2019
	\$	\$
Net income (loss) for the year	3,727,544	(3,250,446)
Other comprehensive loss		
Items that may be subsequently reclassified to income or loss		
Unrealized losses on translation of financial statement operations with Mongolian Tögrög functional currency to Canadian dollar reporting currency	(1,211,257)	(1,831,600)
Items subsequently reclassified to income or loss		
Reclassification of accumulated other comprehensive income on disposal of subsidiary (note 21)	-	824,864
Total comprehensive income (loss)	2,516,287	(4,257,182)

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.
Consolidated Statements of Changes in Equity
For the years ended December 31

(Expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2019	53,625,230	6,849,976	(13,226,649)	(18,201,252)	29,047,305
Net loss for the year	-	-	-	(3,250,446)	(3,250,446)
Reclassification (note 21)	-	-	824,864	-	824,864
Other comprehensive loss	-	-	(1,831,600)	-	(1,831,600)
	<u>53,625,230</u>	<u>6,849,976</u>	<u>(14,233,385)</u>	<u>(21,451,698)</u>	<u>24,790,123</u>
Share repurchase	(120,295)	-	-	-	(120,295)
Balance at December 31, 2019	<u>53,504,935</u>	<u>6,849,976</u>	<u>(14,233,385)</u>	<u>(21,451,698)</u>	<u>24,669,828</u>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2020	53,504,935	6,849,976	(14,233,385)	(21,451,698)	24,669,828
Net income for the year	-	-	-	3,727,544	3,727,544
Other comprehensive loss	-	-	(1,211,257)	-	(1,211,257)
	<u>53,504,935</u>	<u>6,849,976</u>	<u>(15,444,642)</u>	<u>(17,724,154)</u>	<u>27,186,115</u>
Share repurchase	(339,688)	-	-	-	(339,688)
Balance at December 31, 2020	<u>53,165,247</u>	<u>6,849,976</u>	<u>(15,444,642)</u>	<u>(17,724,154)</u>	<u>26,846,427</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Consolidated Statements of Cash Flow

As at December 31, 2020

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	3,727,544	(3,250,446)
Items not affecting cash		
Depreciation (note 9)	68,795	73,294
Deferred taxes	(103,051)	(155,606)
Allowance for doubtful tax receivables (note 7)	-	(13,806)
Realized (gain) loss on disposal of investment properties (note 8)	(106,762)	302,959
Impairment of property and equipment (note 9)	36,426	158,655
Unrealized (gain) loss on marketable securities (note 6)	(4,265,403)	(454,824)
Realized (gain) loss on marketable securities (note 6)	(3,288,803)	358,826
Unrealized loss on fair value adjustment on investment properties (note 8)	2,700,069	1,347,662
Reclassification of accumulated other comprehensive income on disposal of subsidiary (note 21)	-	824,864
	(1,231,185)	(808,422)
Net change in non-cash working capital balances (note 18)	877,373	305,586
	(353,812)	(502,836)
Financing activities		
Share repurchase (note 13)	(339,688)	(120,295)
Decrease in margin borrowing for marketable securities	(586,325)	-
Long term CEBA loan (note 11)	40,000	-
Loan payment	-	(680,902)
	(886,013)	(801,197)
Investing activities		
Net sale of marketable securities (note 6)	1,186,552	604,998
Net proceeds on acquisition of property and equipment	(705)	(1,540)
Net proceeds on sale of investment properties	583,372	884,369
	1,769,219	1,487,827
	529,394	183,794
Effect of exchange rates on cash	95,122	(191,950)
Increase (decrease) in cash	624,516	(8,156)
Cash – Beginning of year	737,255	745,411
Cash – End of year	1,361,771	737,255

*Supplementary cash flow information (note 18)

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

1 Corporate information

Mongolia Growth Group Ltd. (MGG or the Company) was incorporated in Alberta on December 17, 2007, and is a real estate investment and development Company operating through the ownership of commercial investment property assets in Ulaanbaatar, Mongolia.

The Company's common shares were previously listed on the Canadian Securities Exchange (CSE). On January 9, 2013, the Company filed an application for the de-listing of the common shares from the CSE and filed an application for the listing of common shares on the TSX Venture Exchange (TSXV). The Company is now listed on the TSXV, having the symbol YAK.

MGG has one wholly-owned subsidiary at December 31, 2020, Mongolia (Barbados) Corp. Mongolia (Barbados) Corp. owns the wholly-owned subsidiaries MGG Properties LLC and Big Sky Capital LLC. Big Sky Capital LLC owns the wholly-owned subsidiaries, Carrollton LLC, Biggie Industries LLC, Orpheus LLC, Zulu LLC, Crescent City LLC and Oceanus LLC (together "the investment property operations"). The investment property operations are conducted in Big Sky Capital LLC and its subsidiaries. No active business operations occur in Oceanus LLC at this time. MGG's marketable securities are currently held in a brokerage account owned by Mongolia (Barbados) Corp.

At December 31, 2020 and 2019, the principal subsidiaries of the Company, their geographic locations, and the ownership interest held by the Company, were as follows:

Name	Principal Activity	Ownership		Location
		December 31, 2020	December 31, 2019	
Mongolia (Barbados) Corp.	Holding Company and Brokerage Account	100%	100%	Barbados
MGG Properties LLC	Holding Company and Real estate operations	100%	100%	Mongolia
Big Sky Capital LLC	Holding Company and Real estate operations	100%	100%	Mongolia
Carrollton LLC	Real estate operations	100%	100%	Mongolia
Biggie Industries LLC	Real estate operations	100%	100%	Mongolia
Orpheus LLC	Real estate operations	100%	100%	Mongolia
Zulu LLC	Real estate operations	100%	100%	Mongolia
Crescent City	Real estate operations	100%	100%	Mongolia
Oceanus	Real estate operations	100%	100%	Mongolia

The Company is registered in Alberta, Canada, with its Head Office at its registered and records address at Centennial Place, East Tower, 1900, 520 - 3rd Avenue S.W. Calgary, Alberta, Canada T2P 0R3. The Company's Canadian headquarters are located at 100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9, Canada. The Company's Mongolian investment property operations are based out of its office located at the MGG Properties Building on Seoul St. in Ulaanbaatar, Mongolia.

At December 31, 2020, the Company is organized into two segments based on the business operations:

- Big Sky Capital LLC and its subsidiaries own investment properties which are located in Ulaanbaatar, Mongolia and are held for the purpose of generating rental revenue, capital appreciation, and/or redevelopment; and
- The MGG Corporate office is located in Toronto, Canada.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

2 Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The significant accounting policies used in the preparation of these consolidated financial statements are summarized in note 3.

These financial statements have been prepared on a going concern basis, meaning that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

The consolidated financial statements, including the notes to the consolidated financial statements, are presented in Canadian dollars (\$) which is the Company's presentation currency and the functional currency of the parent Company. The functional currency of the Company's operating subsidiaries is the Mongolian National Tögrög (MNT). The functional currency of the Company's operating subsidiary in Barbados is the Canadian Dollar.

These consolidated financial statements were approved by the Board of Directors of the Company for issue on April 5, 2021.

3 Significant accounting policies

a. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment properties and marketable securities at fair value.

b. Basis of consolidation

These consolidated financial statements include the accounts of MGG and its wholly-owned subsidiaries. Subsidiaries are entities controlled by MGG. Control exists when MGG is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared for the same reporting year as MGG, using consistent accounting policies. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Upon the disposal of a subsidiary, amounts previously recognized in other comprehensive income in respect of that entity, are reclassified to profit and loss.

c. Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

c. Financial instruments (continued)

instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. Cash and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss and marketable securities are classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Trade payables and accrued liabilities, short term debt and long term CEBA loan are classified as other financial liabilities and carried on the balance sheet at amortized cost. Marketable securities sold short are carried FVTPL.

As at December 31, 2020, the Company does not have any derivative financial liabilities.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Marketable securities are classified as fair value through profit or loss. All financial instruments which are measured at their amortized cost approximate their fair value due to the short term nature of those instruments. Financial assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

c. Financial instruments (continued)

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

- The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of investments. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

- Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as assets or liabilities for which the determination of estimated fair value requires significant management judgement or estimation.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies.

The levels of the fair value inputs used in determining estimated fair value of the Company's financial assets at fair value through profit or loss as at December 31, 2020 and 2019, is shown below.

	Estimated fair values			
	December 31, 2020	Level 1	Level 2	Level 3
Marketable securities	\$10,613,444	\$10,613,444	-	-
Marketable securities sold short	\$39,223	\$39,223	-	-
	\$10,574,221	\$10,574,221	-	-
	Estimated fair values			
	December 31, 2019	Level 1	Level 2	Level 3
Marketable securities	\$3,689,304	\$3,689,304	-	-
Marketable Securities sold short	\$23,340	\$23,340	-	-
	\$3,665,964	\$3,665,964	-	-

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

c. Financial instruments (continued)

At December 31, 2020 and 2019 there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as level 2 and 3 in the fair value hierarchy above.

d. Investment properties

Investment properties include properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment properties are initially measured at fair which is most often the purchase price plus any directly attributable expenditures. Investment properties are subsequently measured at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of operations in the year they arise. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of operations during the financial period in which they occur.

Substantially all of the Company's income generating properties and properties under development are investment properties.

Properties under development are measured at cost.

Certain land leases held under an operating lease are classified as investment properties when the definition of an investment property is met. At inception these leases are recognized at the lower of the fair value of the property and the present value of the minimum lease payments.

Some properties may be partially occupied by the Company, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company can be sold separately, the Company accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income, capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Company considers the owner-occupied portion as insignificant when the property is more than 90% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Company uses the size of the property measured in square metres.

The fair value of investment properties was based on the nature, location and condition of the specific asset. The fair value is calculated at December 31 on the majority of investment properties by an independent, professional, qualified appraisal firm, whose appraisers hold recognized relevant, professional qualifications and who have recent experience in the locations and categories of the investment properties valued. The remaining investment properties' fair value was calculated by Management and was performed by qualified individuals with recent experience in the locations and categories of the investment properties valued.

e. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

e. Assets held for sale (continued)

sale, Management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one year period. Investment properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 – Investment Property. All other assets held for sale are stated at the lower of carrying amounts and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying value that would have been recognized had the asset never been classified as held for sale.

f. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The Company's specific revenue recognition criteria are as follows:

i) Rental revenue

The Company has not transferred substantially all of the benefits and risk of ownership of its investment properties, and therefore, the Company accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries.

The Company reports rental revenue on a straight-line basis, whereby the total amount of cash to be received under a lease is recognized into earnings in equal periodic amounts over the term of the lease.

Contingent rents are recognized as revenue in the period in which they are earned.

Amounts payable by tenants to terminate their lease prior to their contractual expiry date (lease cancellation fees) are included in rental revenue at the time of cancellation.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset. Tenant incentives and discounts are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease.

ii) Investment income

Investment income is recorded as it accrues using the effective interest method.

g. Cash

Cash includes cash held at banks or on hand and demand deposits.

h. Property and equipment

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

h. Property and equipment (continued)

location and condition necessary to be capable of operating in a manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs are charged to the consolidated statement of operations during the period in which they occur.

Depreciation is recognized in the consolidated statement of operations and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	Straight-line over 40 years
Furniture and fixtures	Straight-line over 5 to 10 years
Equipment	Straight-line over 1 to 5 years

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost to dispose and value in use. Impairment is recognized in the consolidated statement of operations, when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the consolidated statement of operations at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations in the period the asset is derecognized.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

i. Income taxes

Income taxes are comprised of both current and deferred taxes. Current tax and deferred tax are recognized in the statement of operations except to the extent that it relates to items recognized in Other Comprehensive Income ("OCI") or directly in equity. In this case, the tax is recognized in OCI or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income and are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

i. Income taxes (continued)

differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items, such as losses and tax credits not utilized from prior years. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where, in the opinion of Management, it is probable that future taxable profit will be available against which the deferred tax asset can be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes in tax laws and rates have been enacted or substantively enacted.

j. Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur. Gains and losses arising as a result of foreign currency transactions are recognized in the current year consolidated statement of operations. At reporting dates, monetary items are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.

Translation of foreign operations

For the purpose of the consolidated financial statements, the results and financial position of the Mongolian operations are expressed in Canadian dollars, which is the functional currency of the parent, and the presentation currency of the consolidated financial statements.

The Company translates the assets, liabilities, income and expenses of its Mongolian operations which have a functional currency of Mongolian Tögrög, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.
- Income and expense items are translated using the average rate for the month in which they occur, which is considered to be a reasonable approximation of actual rates.
- Equity items are translated at their historical rates.
- The translation adjustment from the use of different rates is included as a separate component of equity, in accumulated other comprehensive income.

k. Comprehensive income

Comprehensive income consists of net income (loss) and OCI. OCI includes changes in unrealized gains (losses) on the translation of financial statement operations with Mongolian Tögrög functional currency.

l. Share capital and deferred share issuance costs

Ordinary shares issued by the Company are classified as equity. Costs directly identifiable with the raising of capital will be charged against the related share issue, net of any tax effect.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

l. Share capital and deferred share issuance costs (continued)

Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share issuance or charged to operations if the shares are not issued.

m. Earnings (loss) per share

For both continuing and discontinued operations, the Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options.

n. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer. The Company is now managed as two operating segments based on how information is produced internally for the purpose of making operating decisions. The segments are defined as investment property operations and corporate.

o. Leases

IFRS 16, Leases ("IFRS 16") sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor.

From a lessee point of view, the Company has entered into Mongolian government land leases on some of its investment properties. The Company, as a lessee, has determined, based on an evaluation of the terms and conditions of the arrangements, that these land leases meet the definition of an investment property and has classified them as such; therefore, the fair value model is applied to those assets, and gains and losses on changes in fair value are recorded in profit or loss. The payments on these leases are nominal, and are therefore exempt from recognition as low-value leases.

The Company has also entered into commercial and residential property leases on its investment properties. The Company as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains the significant risks and rewards of ownership of these properties and therefore accounts for these agreements as operating leases.

For other leases of low-value assets or short-term leases that end within 12 months of the commencement date and which have no renewal or purchase option, the Company has elected to apply the recognition exemptions specified in IFRS 16, allowing the Company to continue to expense the lease payments in the period in which they are incurred. The total of such expenses was \$9,109 for the 2020 fiscal year (2019 - \$10,662).

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Notes to the Consolidated Financial Statements

For the year ended December 31

p. Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

q. Marketable Securities

The Company presents results from trading marketable securities on both a realized and unrealized basis separately in profit and loss. A realized gain or loss is recorded upon transfer of ownership of a marketable security, calculated as proceeds (net of broker fees) less its cost which is measured on a first-in-first-out ("FIFO") basis. Unrealized gains and losses are the fair value adjustments to positions still held at reporting dates. Any margin borrowings are offset to marketable securities because the Company has both the legal right and intention to settle these positions on a net basis with the related marketable securities.

r. Current Accounting Policy Changes

There were no accounting policy changes which impacted the Company in the December 31, 2020 fiscal year.

s. Future Accounting Policy Changes

IAS 1, Presentation of Financial Statements ("IAS 1") The IASB issued 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' in January 2020, affecting the presentation of liabilities in the statement of financial position. The narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments must be applied retrospectively in accordance with the normal requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"). The amendments are effective for annual periods beginning on or after January 1, 2023 (in accordance with 'Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (Amendment to IAS 1)' issued by the IASB in July 2020), with earlier application permitted. The amendments have not been early adopted by the Company. The Company is currently assessing any potential impact of this amendment.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

4 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires Management to make estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net income (loss) in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant estimates made in the preparation of these consolidated financial statements include the following areas:

- Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of the majority of investment properties by dollar value annually.

The remaining balance of investment properties was valued internally. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. This fair value assumes that the Company is in possession of the property's land and property titles where applicable. Management judges that the Company has the appropriate titles for each of the properties classified as Investment Properties. Properties whereby Management judges that the Company's titles are at risk, have been impaired to reflect the level of risk estimated by Management.

- The Company operates in the emerging real estate market of Mongolia, which given its current economic, political and industry conditions, gives rise to an increased inherent risk given the lack of reliable and comparable market information. The significant estimates underlying the fair value determination are disclosed in note 8. Changes in assumptions about these factors could materially affect the carrying value of investment properties. In addition, the significant global uncertainty resulting from the novel coronavirus ("COVID-19") pandemic has reduced the availability of reliable market metrics to inform opinions, and therefore a higher degree of judgment must be applied. Consequently, fair values are subject to significant change.
- Valuation of marketable securities - The Company recognizes marketable securities at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models with inputs derived from observable market data where possible but where observable data is not available, judgement is required to establish fair values.
- Operating environment of the Company - Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes.
- The future economic performance of Mongolia is tied to the continuing demand from China and global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

4 Significant accounting estimates and judgements (continued)

Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Company.

Significant judgements made in the preparation of these consolidated financial statements include the following:

- Judgement is required in determining whether an asset meets the criteria for classification as assets held for sale and or as discontinued operations in the consolidated financial statements. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the probability of the sale being completed within an expected time frame of one year and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. On completion of the sale, management exercises judgement as to whether the sale qualifies as a discontinued operation.

As at December 31, 2020 and 2019, Management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant size asset could be considered highly probable.

- Judgement is required in determining whether the Company's Investment property and land use rights titles are at risk. As at December 31, 2020 and 2019, Management has made the judgment that Investment Properties whereby the land title has recently expired but is expected to be renewed in the near future should continue to be classified as Investment Properties. Properties whereby Management judges that the Company's titles are at risk, have been impaired to reflect the level of risk estimated by Management.

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Notes to the Consolidated Financial Statements

For the year ended December 31

5 Cash

Cash at banks earns interest at floating rates based on daily bank deposit rates. The component of cash accounts currently consists only of cash amounts held in banks or on hand.

The following table discloses the geographical location of cash:

	2020 \$	2019 \$
Barbados	1,006,689	1,475
Canada	218,694	33,018
Mongolia	136,388	702,762
Total cash	1,361,771	737,255

Cash is not collateralized. The carrying amount of cash approximates fair value.

The credit quality of cash balances may be summarized based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at December 31 was as follows:

	2020 \$	2019 \$
Cash on hand	1,916	2,154
A or A+ rated	199,491	31,600
B- or B+ rated	134,471	700,609
BBB+ rated	1,005,228	-
Unrated	20,665	2,892
Total cash	1,361,771	737,255

The unrated balance relates to one private bank in Barbados (2019 – one) and one brokerage company in Canada (2019 – one). The BBB+ rating relates to a brokerage company in the United States which was previously unrated.

6 Marketable Securities

The following table shows the continuity of the Company's brokerage account.

	Cash	Marketable securities Long	Marketable securities Short	Interest Accruals	Total
December 31, 2019	(586,325)	4,275,629	(23,340)	-	3,665,964
Unrealized (loss) gain	-	4,265,403	-	-	4,265,403
Realized gain (loss)	-	3,288,803	-	-	3,288,803
FX gain (loss)	-	(45,722)	-	-	(45,722)
Interest Accrual	-	-	-	1,374	1,373
Net cash transferred in (out)	405,000	-	-	-	405,000
(Purchases)/sales	1,186,553	(1,170,669)	(15,883)	-	-
December 31, 2020	1,005,228	10,613,444	(39,223)	1,374	11,580,822

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

6 Marketable Securities (continued)

	Cash	Marketable securities Long	Marketable securities Short	Interest Accruals	Total
December 31, 2018	(221,875)	4,253,481	(85,404)	-	3,946,202
Unrealized (loss) gain	-	454,824	-	-	454,824
Realized gain (loss)	-	(358,826)	-	-	(358,826)
FX gain (loss)	-	228,761	-	-	228,761
Interest Accrual	2,133	(2,130)	-	-	3
Net cash transferred in (out)	(605,000)	-	-	-	(605,000)
(Purchases)/sales	238,417	(300,481)	62,064	-	-
December 31, 2019	(586,325)	4,275,629	(23,340)	-	3,665,964

Cash balances in the Company's brokerage account are classified within cash on the statement of financial position (Note 5). A negative cash balance represents borrowing on margin, which is presented net against marketable securities because the Company has the legal right and intention to close out margin balances on a net basis with the related marketable securities.

7 Other assets

	2020 \$	2019 \$
Accounts receivable	134,869	1,342,624
Prepaid expenses	24,860	40,403
	159,729	1,383,027

In 2019, included in accounts receivable were proceeds of \$954,640 which was received during the first week of 2020, one investment property to be transferred to the Company with a value of \$143,196 and \$190,928 receivable to be paid in monthly instalments during the first eight months of the year, for the sale of a property which was received subsequent to year end. Due to the current pandemic, only \$79,082 of the receivable was received and \$111,846 is still outstanding. Management is of the opinion that it will receive the remainder of the receivable within the following twelve months.

8 Investment properties

	2020 \$	2019 \$
Balance - beginning of year	18,831,985	24,415,860
Additions		
Acquisitions	145,412	48,213
Disposals	(583,372)	(2,524,305)
Fair value adjustment	(2,700,069)	(1,347,662)
Foreign exchange adjustments	(1,151,720)	(1,760,121)
Balance – end of year	14,542,236	18,831,985

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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8 Investment properties (continued)

During the twelve-month period ended December 31, 2020, the Company transferred a property acquired through the sale of a property during the prior year from other assets to investment properties as the Company obtained its property title during the first quarter. During the year the Company sold three properties for total proceeds of \$690,134 resulting in a net gain of \$106,762 (2019 - three sold for a loss of \$302,959). During the twelve-month period, the Company recognized an unrealized fair value adjustment impairment loss of \$2,700,069 on its property portfolio (2019 - \$1,347,662).

Investment properties by major category are as follows:

	2020 \$	2019 \$
Office	896,266	1,033,875
Retail	9,415,983	12,307,380
Land and redevelopment sites	4,229,987	5,490,730
	14,542,236	18,831,985

Investment properties with an aggregate fair value of \$9,245,117 (2019 - \$13,213,176) in addition to the Company's headquarters of \$1,191,341 were valued by an external independent valuation professional who is deemed to be a qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued. The remaining balance of investment properties were valued internally.

The Company determined the fair value of investment properties using the income approach and the sales comparison approach, which are generally accepted appraisal methodologies.

Under the income approach, the methodology used was the direct capitalization approach which is based on rental income and yields. Rental incomes were based on current rent and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future rent in light of current conditions adjusted for non-recoverable property costs. Yields were determined using data from real estate agencies, market reports and property location among other things in determining the appropriate assumptions. Under this method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

The sales comparison approach analyzes all available information of sales of comparable properties that have recently taken place or have recently been marketed and adjusts the price to reflect differences in the property valued and sold.

The entire portfolio of investment properties has been valued using the income approach, the sales comparison approach or a combination thereof.

Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of the investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie the Company's valuation methodologies. In addition, less weight can be ascribed to previous market evidence, for comparative purposes, to inform opinions of value.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

8 Investment properties (continued)

Given this impact on the availability of reliable market metrics, fair values at December 31, 2020 may be subject to material change.

The Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and redevelopment. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. In this agreement, the Company had an obligation to complete the construction of a new building by the end of fiscal 2017 and the agreement was not extended. A liability of \$223,693 (2019 - \$131,438) is currently included in the Company's trade payables and accrued liabilities (note 10) to reflect this liability. In addition, the Company has recognized an unrealized fair value loss of \$1,108,907 (2019 - \$1,436,256) in excess of the fair value adjustment calculated using the valuation approaches described. This adjustment is Management's estimate of the markets perception of the risk related to this agreement, and is included within the unrealized gain (loss) on fair value adjustment on Investment properties within profit and loss. Refer to Note 17 for additional information.

Under the fair value hierarchy, the fair value of the Company's investment properties is considered a level three, as defined in note 3.

The key valuation assumptions for commercial investment properties are as follows:

	2020		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.0%	8.9%	9.7%

	2019		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.25%	9.5%	9.6%

The following sensitivity table outlines the impact of a 0.25% change in the weighted average capitalization rate on investment properties at 2020:

	Change to fair value if capitalization rate increased 0.25%	Change to fair value if capitalization rate decreases 0.25%
Investment property	(56,209)	59,187

Additional valuation assumptions include the rental revenue per square meter, grade quality of the property and comparable market data.

Investment properties of \$3,455,674 (2019 - \$4,308,769) have no rental revenue associated with them at December 31, 2020.

Investment properties include land use rights held under operating leases with an aggregate fair value of \$4,229,987 (2019 - \$5,490,730) at December 31, 2020.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

8 Investment properties (continued)

Certain investment properties held by the Company are leased out (the Company is the lessor) under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2020	2019
	\$	\$
Less than 1 year	769,266	772,222
Between 1 and 5 years	158,875	299,333
Beyond 5 years	-	-
	928,141	1,071,555

Direct operating expenses arising from investment properties that generated rental income during the year was \$855,822 (2019 – \$1,050,283). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$5,114 (2019 - \$4,819).

The Company's operating leases, in which the Company is the lessor, are structured such that the weighted average length of the leases as at December 31, 2020 was 9.2 months (8.1 months as at December 2019), calculated as a percentage of monthly revenues.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

9 Property and equipment

	2020			
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Cost				
At January 1	70,944	128,444	1,800,646	2,000,034
Additions	-	705	-	705
Disposals	-	(2,858)	-	(2,858)
Impairment	-	-	(36,426)	(36,426)
Foreign exchange adjustment	1,250	250	(30,921)	(29,421)
At December 31	72,194	126,541	1,733,299	1,932,034
				2020
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Accumulated depreciation				
At January 1	45,047	107,759	411,578	564,384
Depreciation	6,901	11,525	50,369	68,795
Disposals	-	(2,858)	-	(2,858)
Foreign exchange adjustment	2,453	254	5,765	8,472
At December 31	54,401	116,680	467,712	638,793
Net book value at December 31	17,793	9,861	1,265,587	1,293,241

During the year ended December 31, 2020 the Company recognized an impairment on its corporate office building of \$36,426 (2019 – impairment of \$158,655) which was implied by the same valuation methodology described in note 8.

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Notes to the Consolidated Financial Statements

For the year ended December 31

9 Property and equipment (continued)

	2019			
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Cost				
December 31	73,702	135,758	2,110,307	2,319,767
Additions	-	1,540	-	1,540
Disposals	-	(4,994)	-	(4,994)
Reversal of impairment	-	-	(158,655)	(158,655)
Foreign exchange adjustment	(2,758)	(3,860)	(151,006)	(157,624)
At December 31	70,944	128,444	1,800,646	2,000,034
	2019			
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Accumulated depreciation				
At January 1	38,507	101,203	387,263	526,973
Depreciation	7,000	13,808	52,486	73,294
Disposals	-	(4,994)	-	(4,994)
Foreign exchange adjustment	(460)	(2,258)	(28,171)	(30,889)
At December 31	45,047	107,759	411,578	564,384
Net book value at December 31	25,897	20,685	1,389,068	1,435,650

10 Trade payables and accrued liabilities

	2020 \$	2019 \$
Trade and accrued payables	232,302	506,351
Property commitment (note 8)	223,693	131,438
Security deposits	88,437	107,023
Unearned revenue	20,110	22,920
	564,542	767,732

The carrying amounts above reasonably approximate fair value at the consolidated statement of financial position date. All trade and other payables are current.

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Notes to the Consolidated Financial Statements

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11 Short term and long term debt

	2020 \$	2019 \$
Current	-	-
Non-current	40,000	-
	40,000	-

During the year ended December 31, 2020, the Company qualified for a government-guaranteed line of credit (Canada Emergency Business Account “CEBA”) of \$40,000 which was interest-free until December 31, 2020. On January 1, 2021, the line of credit converted to a 2-year, 0% interest term loan to be repaid by December 31, 2022 at which time a 25% balance forgiveness (\$10,000) will apply if the loan is repaid by such date. The Company has the option to exercise a 3-year term extension on the loan by December 31, 2022, if the loan is not repaid by then. At which time, the remaining unpaid balance of the loan will bear interest at 5% interest per annum during the extension period and must be paid in full by December 31, 2025. Funds can be used to pay non-deferrable operating expenses include payroll.

12 Income taxes

a) Effective tax rate

The income tax expense reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2020 \$	2019 \$
Net income (loss) before income taxes	3,625,805	(3,315,654)
Combined statutory tax rate	26.5%	26.5%
Tax payable (recoverable) based on statutory tax rate	961,000	(879,000)
Effect of:		
Permanent differences	690,000	(99,000)
Change in statutory, foreign tax, foreign exchange rates and other	(1,157,739)	527,792
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	48,000	(139,000)
Change in unrecognised deductible tax differences	(643,000)	524,000
Total income tax expense (recovery)	(101,739)	(65,208)
Provision for (recovery of) income taxes		
Current	1,312	90,398
Deferred	(103,051)	(155,606)

a) Deferred income taxes

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

12 Income taxes (continued)

The Company did not recognize a deferred tax asset in these Consolidated Financial Statements as there is uncertainty with regard to the recoverability of the asset for both the Canadian and Mongolian entities.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2020 \$	2019 \$
Deferred Tax Assets (liabilities)		
Property and equipment	51,000	51,000
Investment properties	(478,836)	(581,887)
Allowable capital losses	98,000	98,000
Non-capital losses available for future period	2,393,000	3,036,000
	2,063,164	2,603,113
Unrecognized deferred tax assets	(2,542,000)	(3,185,000)
Net deferred tax liability	(478,836)	(581,887)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	2020	Expiry Date Range	2019	Expiry Date Range
Property and equipment	194,000	No expiry date	194,000	No expiry date
Allowable capital losses	371,000	No expiry date	371,000	No expiry date
Non-capital losses available for future period	9,028,000	2030 to 2040	11,458,000	2030 to 2039

Tax attributes are subject to review, and potential adjustment by tax authorities.

13 Share capital and contributed surplus

Common shares

The Company is authorized to issue an unlimited number of common and preferred shares.

The issued and outstanding common shares are as follows:

	Number of shares	Amount \$
Balance, December 31, 2018	33,243,999	53,625,230
Shares re-purchased	-	(120,295)
Treasury stock cancelled	(476,500)	-
Balance, December 31, 2019	32,767,499	593,504,935
Shares re-purchased	-	(339,688)
Treasury stock cancelled	(1,486,000)	-
Balance, December 31, 2020	31,281,499	53,165,247

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13 Share capital and contributed surplus (continued)

As at December 31, 2020, the Company held 191,500 (2019 -35,000) shares in treasury to be cancelled during the first quarter of 2021.

Stock options

The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company's issued and outstanding shares, calculated from time to time and are exercisable within a maximum of ten (10) years. The vesting period for all options is at the discretion of the directors. The exercise price will be set by the directors at the time of grant and cannot be less than the discounted market price of the Company's common shares. At December 31, 2020, the Company had 3,128,150 (2019 - 1,856,750) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions. Full details of the Company's option plan can be found in "Schedule C" of the Management Information Circular on the Company's website and filed on Sedar.

A summary of the Company's options as at December 31 and changes during the years then ended follows:

	December 31, 2020	Weighted average exercise price \$	December 31, 2019	Weighted average exercise price \$
Balance, beginning of the year	1,420,000	0.73	3,103,000	1.13
Options expired	1,420,000	0.73	(1,623,000)	1.49
Options cancelled	-	-	-	-
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options forfeited	-	-	(60,000)	0.72
Balance, end of the year	-	-	1,420,000	0.73
Exercisable	-	-	1,420,000	0.73
Weighted remaining average life (years)	-	-	-	0.26

There are no options outstanding as of December 31, 2020.

Options outstanding December 31, 2019

Number outstanding	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price \$
855,000	855,000	0.25	0.72
565,000	565,000	0.27	0.74
1,420,000	1,420,000	0.26	0.73

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13 Share capital and contributed surplus (continued)

Earnings per share

The following table summarizes the shares used in calculating earnings (loss) per share:

	2020	2019
Weighted average number of shares - basic	32,102,372	32,989,169
Effect of dilutive stock options	-	-
Weighted average number of shares - diluted	32,102,372	32,989,169

Basic earnings (loss) per share are derived by dividing net income (loss) for the year by the weighted average number of common shares outstanding for the period.

14 Management of capital structure

The Company's objective when managing capital is to ensure the Company is capitalized in a manner which provides a strong financial position for its shareholders.

The Company's capital structure includes equity and working capital. In managing its capital structure, the Company considers future investment and acquisition opportunities, potential credit available and potential issuances of new equity. The Company's objective is to maintain a flexible capital structure that will allow it to execute its stated business. There was no change in the Company's strategy or objective in managing capital since the prior year. There are no externally imposed capital requirements at year end. Upon acquiring investment properties and operating businesses, the Company will strive to balance its proportion of debt and equity within its capital structure in accordance with the needs of the continuing business. The Company may, from time to time, issue shares and adjust its spending to manage current and projected proportions as deemed appropriate.

	2020 \$	2019 \$
Current assets	12,134,944	5,809,586
Current liabilities	(605,158)	(825,506)
Working capital	11,529,786	4,984,080

The method used by the Company to monitor its capital is based on an assessment of the Company's working capital position relative to its projected obligations.

15 Financial risk management

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

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15 Financial risk management (continued)

Catastrophe risk

The Company has obtained insurance on buildings and all permanent fixtures totalling approximately \$8,300,000 effective May 8th 2021 (\$11,700,000 - May 7th 2020).

Credit risk

Credit risk is the risk of an unexpected financial loss to the Company if a third party fails to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk arises principally from the Company's cash and receivables as well as its marketable securities portfolio.

The Company's maximum exposure to credit risk comprises the carrying values of cash, accounts receivable, and marketable securities; in total \$12,110,083 at December 31, 2020 (December 31, 2019 - \$5,769,183).

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. The majority of the funds invested are held in reputable Barbadian, American, Canadian or Mongolian banks (note 5).

The Company is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. The Company mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The Company's properties are diversified across commercial classes.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, liquid investments and income and other returns received on investments. Cash provided from these sources is used primarily for investment property operating expenses.

As at December 31, 2020, the Company does not believe the current maturity profile of the Company lends itself to any material liquidity risk, taking into account the level of cash and marketable securities as at December 31, 2020.

All financial assets and liabilities have contractual or expected maturities within 12 months, except for the CEBA loan which has repayment terms described in Note 11. Due to the short term nature of the Company's financial instruments, there is no material impact due to discounting or the time value of money to disclose.

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15 Financial risk management (continued)

Market risk

i) Other price risk

Other price risk market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. The Company's marketable securities are exposed to other price risk. The approximate impact of a fluctuation of 10% in the price of the marketable securities would impact the value of the marketable securities by \$1,057,422 (2019 - \$425,226).

Economic risk

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as Value added tax (VAT), corporate income tax, personal income tax and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained.

Management performs regular re-assessments of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

16 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Key management personnel of the Company include all directors and executive management. The summary of compensation for key management personnel is as follows:

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16 Related party transactions (continued)

	2020 \$	2019 \$
Salaries and other short-term employee benefits	479,281	481,213
Director fees	40,000	40,000
	519,281	521,213

As at December 31, 2020, amounts due to related parties totaled approximately \$45,013 comprised of accrued directors fees and fees owed to management (2019 - \$48,118) were included in trade payables and accrued liabilities. In 2019, an amount of \$20,867 was owed to the Company by a company controlled by the CEO.

17 Commitments and contingencies

From time to time and in the normal course of business, claims against the Company may be received. Management is not aware of any pending, or threatened litigation that, if resolved against us, would have a material adverse effect on our consolidated financial position, results of operations, or cash flows, except with regards to the matter described below:

The Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and redevelopment. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. In this agreement, the Company had an obligation to complete the construction of a new building by the end of fiscal 2017 and the agreement was not extended. The Company has received a demand letter from the owner of the apartment in November 2020 in an amount of approximately \$508,000 in compensation for lost rental income since the Company signed the agreement in 2013. Management believes that the majority of the claim is without merit and will not be successful, and therefore has not recognized a provision with regards to this claim.

However, \$223,693 is currently included in the Company's trade payables and accrued liabilities (note 10) to reflect the contractual liability to provide an apartment.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

18 Supplementary cash flow information

	2020 \$	2019 \$
Changes in non-working capital arising from		
Other assets	1,064,637	(25,230)
Trade payables and accrued liabilities	(178,941)	252,461
Income tax payable	(8,323)	78,355
Changes in non-cash working capital from operating activities	877,373	305,586

Non cash considerations in the form of investment properties for sale of an investment property was classified as other assets (note 7) at December 31, 2019 and received in 2020, totalling \$145,492. Income tax paid during the year was \$32,914 (2019 - \$32,637).

Interest paid during the year was \$21 (2019 - \$82,776).

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Notes to the Consolidated Financial Statements

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19 Segment information

The Company's operations are conducted in two reportable segments; Investment Property Operations and Corporate. The Company reports information about its operating segments based on the way Management organizes and reports the segments within the organization for making operating decisions and evaluating performance. Investment Property operations consist of commercial and residential investment property in Mongolia held for the purposes of rental revenue, capital appreciation or redevelopment. These properties are managed by Big Sky Capital LLC and its subsidiaries. The Company evaluates performance based on net income (loss) before income taxes.

	2020		
	Investment Property \$	Corporate \$	Total \$
Rental income	756,283	-	756,283
Property operating expenses	(860,936)	-	(860,936)
Unrealized gain on investment properties	(2,700,069)	-	(2,700,069)
Impairment of PPE	(36,426)	-	(36,426)
Unrealized mark to market gain	-	4,265,403	4,265,403
Other expenses	(267,695)	(910,968)	(1,178,662)
Depreciation	(68,795)	-	(68,795)
Interest income	2,443	69	2,512
Gain on disposal of investment property	106,762	-	106,762
Other revenue	68,170	-	68,170
Realized gain on marketable securities	-	3,288,803	3,288,803
Finance cost	-	(21)	(21)
Foreign currency gain (loss)	4,281	(21,499)	(17,219)
Net income (loss) before income taxes	(2,995,982)	6,621,787	3,625,805

	2019		
	Investment Property \$	Corporate \$	Total \$
Rental income	1,287,353	-	1,287,353
Property operating expenses	(1,055,102)	-	(1,055,102)
Unrealized loss on investment properties	(1,347,662)	-	(1,347,662)
Impairment of PPE	(158,655)	-	(158,655)
Unrealized mark to market gain	-	454,824	454,824
Other expenses	(156,737)	(1,067,158)	(1,223,895)
Depreciation	(73,294)	-	(73,294)
Interest income	5,489	128	5,617
loss on disposal of investment property	(302,959)	-	(302,959)
Other revenue	156,433	3	156,436
Foreign currency gain (loss)	(10,601)	218,796	208,195
Realized loss on marketable securities	-	(358,826)	(358,826)
Finance cost	(82,775)	(47)	(82,822)
Reclassification of accumulated other comprehensive income on disposal of subsidiary	(824,864)	-	(824,864)
Net income (loss) before income taxes	(2,563,374)	(752,280)	(3,315,654)

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19 Segment information (continued)

Balance as of December 31, 2020	Investment Property \$	Corporate \$	Total \$
Total assets	16,126,640	11,843,781	27,970,421
Property and equipment	1,293,241	-	1,293,241
Investment properties	14,542,236	-	14,542,236
Expenditures			
Property and equipment	705	-	705
Investment properties	145,412	-	145,412
Total liabilities	922,514	201,479	1,123,993

Balance as of December 31, 2019	Investment Property \$	Corporate \$	Total \$
Total assets	22,329,807	3,747,414	26,077,221
Property and equipment	1,435,650	-	1,435,650
Investment properties	18,831,985	-	18,831,985
Expenditures			
Property and equipment	1,540	-	1,540
Investment properties	48,213	-	48,213
Total liabilities	981,946	425,447	1,407,393

	Trade payables and accrued liabilities		Revenue		Property and equipment		Investment property	
	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
Canada	201,479	402,107	-	-	-	-	-	-
Mongolia	363,063	365,625	931,215	1,140,830	1,293,241	1,435,650	14,564,844	18,831,985
	564,542	767,732	931,215	1,140,830	1,293,241	1,435,650	14,564,844	18,831,985

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20 Other expenses

	2020	2019
	\$	\$
Investor relations	22,537	25,808
Investment research expense	49,772	53,194
Repairs and maintenance	25,122	66,858
Office	69,448	70,633
Professional fees	771,864	888,056
Travel	18,835	51,626
Advertising	10,609	22,832
Land and property tax	77,262	115,250
Insurance	70,858	65,889
Utilities	127,173	156,489
Allowance for doubtful tax receivables	-	(13,807)
Other	196,920	82,317
	1,440,400	1,585,145

21 Disposal of subsidiary

On December 26th, 2019, the Company disposed of its interest in its Endymion LLC subsidiary as a result of the sale of one of its land packages. The Company held 100% of the shares of Endymion LLC where the only assets and liabilities were related to the property. In connection with the sale, the Company received consideration of \$1,288,764 compared to net assets of \$1,502,981 resulting in a loss of \$214,217 classified within loss on disposal of investment property in profit and loss. Endymion LLC had \$824,864 other comprehensive income and it was reclassified to profit and loss.

22 COVID-19

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions in order to limit the spread of COVID-19 or other COVID-19 related impacts. These actions included closing borders, closing schools, reducing gatherings and drastic limitations on business operations. As long-term investors in Mongolia, the Corporation welcomes these actions that keep the people of Mongolia safe from COVID-19; however it is anticipated that these actions will lead to a severe economic crisis. Since the initiation of these actions, the Company has experienced a material reduction in rental revenues received. It is reasonable to expect there could be a material negative impact on the fair values of investment properties and/or marketable securities, however at this time the potential effect cannot be quantified. At this time, there is no way to know the ultimate impact of these extra-ordinary actions upon the economy or the Company.

23 Subsequent events

- Since January 1, 2021, the Company has repurchased 1,061,500 of its shares at an average price of \$0.42/share and cancelled 1,253,000 shares.
- The Company sold one property for total proceeds of approximately \$396,000 and a net gain of \$nil.